

3SBio Inc. (1530.HK)

2016 Performance in Line with Expectations

Hong Kong | Pharmaceutical | Company report

29 March 2017

Investment Summary

The company's 2016 performance was in line with expectations. Yisaipu and TPIAO have been included in the National Drug Reimbursement List and are expected to release the potential of rapid growth from the fourth quarter of 2017. Expanding the field of diabetes through externally acquired products shall create growth drivers. And abundant drugs in research will also support the company's mid- and long-term development. As one of the few leading biopharmaceutical companies in China, it is expected to achieve an annualized growth rate of over 20%. We give an estimation of 22x EPS in 2018 with a target price of RMB11.6. And the "Buy" rating is maintained. (Closing price as at 27 Mar 2017)

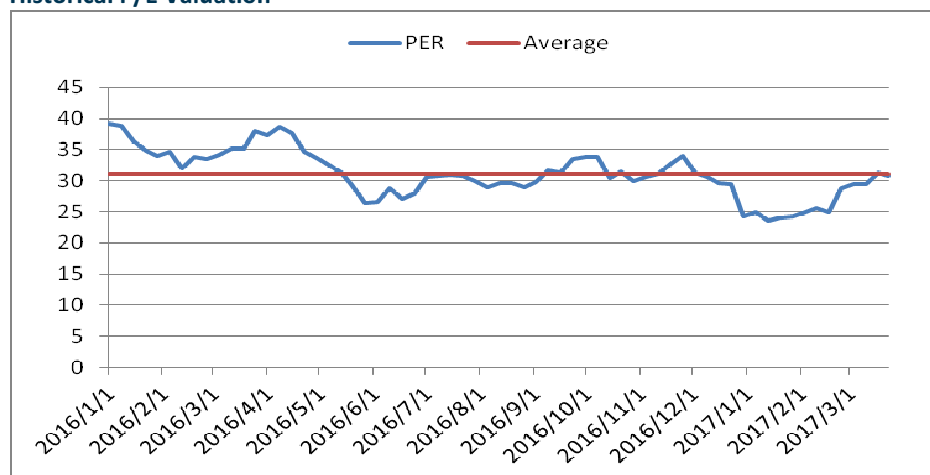
Buy (Maintain)

CMP: HKD 9.30
(Closing price as at 27 Mar 2017)
TARGET: HKD 11.60 (+25%)

COMPANY DATA

O/S SHARES (MN) :	2,532
MARKET CAP (HKDMN) :	23,548
52 - WK HI/LO (HKD):	10.96/ 6.93

Historical P/E Valuation



Source: Bloomberg, Phillip Securities (HK) Research

SHARE HOLDING PATTERN, %

CS Sunshine Investment:	28.13
Decade Sunshine:	23.67

PRICE PERFORMANCE, %

	1M	3M	1Y
3SBio	6.09	30.87	-8.94
HSI	4.45	17.97	-28.66

PRICE VS. HSI



Source: Phillip Securities (HK) Research

Peer Comparison

Ticker	Company	MV (HKD:mn)	PE-TTM	PE-2017F	PE-2018F	PB
1035.HK	BBI Live Science	1,091	16.10	-	-	1.54
1093.HK	CSPC Pharmaceutical	61,752	29.33	23.32	19.12	6.10
1513.HK	Livzon Pharma	24,507	22.00	17.81	15.19	2.61
1177.HK	Sino Biopharm	50,329	26.31	23.23	20.55	5.66
1348.HK	Fudan Zhangjiang	6,206	39.94	28.65	28.66	6.57
2196.HK	Fosun Pharma	75,134	21.92	20.54	18.30	3.07
			27.90	22.71	20.36	4.80
1530.HK	3S Bio	23,548	30.45	22.23	17.59	3.33

Source: Wind, Phillip Securities (HK) Research

KEY FINANCIALS

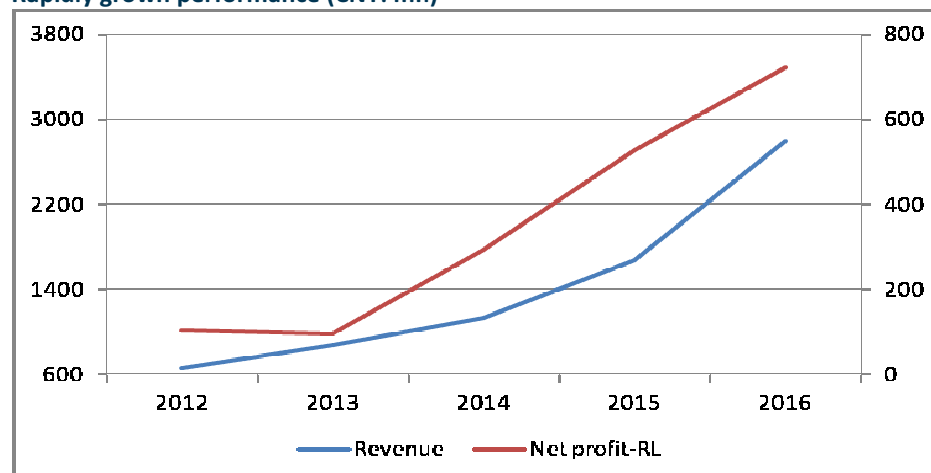
CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	1673	2797	3488	4381
Net Profit	526	714	935	1182
EPS, CNY	0.23	0.28	0.37	0.47
PER, x	35.94	29.52	22.23	17.59
BVPS, CNY	2.24	2.58	3.06	3.53
P/BV, x	3.70	3.21	2.70	2.34
ROE, %	16.1	11.7	12.9	14.3
Debt/Equity (%)	17.7	63.1	66.7	66.7

Source: Company reports, Phillip Securities Est.

2016 Performance in Line with Expectations

In 2016, 3SBio Inc. reported a revenue of RMB2.8 billion, representing an increase of 62.7% YoY; the net profit attributable to parent company amounted to RMB0.713 billion, surging by 35.4% YoY, with an EPS of RMB0.28 which was in line with market expectation.

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Rapidly grown performance (CNY: mn)


Source: Company report, Phillip Securities (HK) Research

TPIAO is one of the core growth points. And its yearly sales increased by 26.4% to RMB0.765 billion, accounting for 27% of total revenue. Besides, Yisaipu was included in the consolidated statement, with a revenue growth of RMB0.786 billion. And the Company's gross profit margin saw a year-on-year increase of 0.1% to 85.6%, with the operating profit margin surging from 29.7% in 2015 to 34.9% in 2016. However, new acquisition loans have led to a surge in financial expenses, with the net interest gain of RMB7 million in 2015 up to the net interest expense of RMB0.124 billion and the core net profit margin seeing a YoY decrease of 2.4% to 25.2%.

Including Core Products in 2017 National Drug Reimbursement List (NDRL) Supporting Development

In H2 2016, the sales growth of TPIAO decreased from 37.4% in the first half to 14.7%. And Yisaipu's sales growth also saw a decrease from the first half's 16.5% to the second half's 4.4%. However, the aforesaid two drugs was included in 2017 NDRL, expanding its potential market tenfold in size than before. And it's expected to support the company's rapid growth.

Compared with Recombinant Human Interleukin-11, the traditional medicine, TPIAO has a better curative effect in treating thrombocytopenia caused by chemotherapy, also with less side effects. But according to the data issued by IMS, TPIAO's market share of treating thrombocytopenia caused by chemotherapy is only 11%. TPIAO is expected to accelerate its replacement of traditional therapies after being included in NDRL. Meanwhile, as an exclusive product, TPIAO shall see a limited decrease in its price and a compound growth rate of 25-30% in its sales.

Besides, currently the penetration rate of monoclonal antibodies in China is lower than that of the world. Yisaipu is the first listed monoclonal antibody, and is also the first domestic biosimilar of Etanercept accepted by the market, and has formed a relatively stable market pattern. After being included in NDRL, given the reimbursement for Yisaipu, its medication course is expected to be prolonged on the basis of present 3-month course and then bring about the increase in its sales. And given its price advantage over imported products, we believe that its sales shall experience a double-digit growth continuously.

Abundant Product Reserve

The company increases its varieties through external acquisition and independent Research & Development. And the company has reached an agreement with AstraZeneca to acquire the exclusive right to commercialize Byetta, Bydureon single dose tray, Bydureon dual chamber pen and Bydureon auto-injector in China to enter the field of diabetes. Byetta has been included in the reimbursement list of nine provinces. Bydureon is projected to make its first contribution to the revenue in the second half of 2017 and become the first GLP sustained release preparation listed in China. These will become the company's new growth drivers. Make an analogy with the international market and we find that Bydureon is expected to grow into a premier variety worth RMB1 billion.

Besides, the company has abundant products in research. It boasts 24 varieties in search, 15 of which are in Research & Development as the National Class New Drugs. In 2016, the company's 5 new drugs have obtained clinical approval. In January 2017, the company appointed Dr. Zhenping Zhu as President of Research & Development and Chief Scientific Officer. Dr. Zhu has extensive research and development experience within the biotechnology industry, especially in the field of antibody therapeutics. It is predicted that the company shall focus on speeding up the clinical trials of products in research and actively expands its product layout.

Risks

Price drop of products exceeds expectations;
Risks of R&D of new drugs.

Financials

FYE	2014	2015	2016	2017F	2018F
Valuation Ratios					
Price Earnings	-	35.94	29.52	22.23	17.59
Price to Book	-	3.70	3.21	2.70	2.34
Per share data(RMB)					
EPS Adjusted	-	0.23	0.28	0.37	0.47
Book Value Per Share	-	2.24	2.58	3.06	3.53
Growth & Margin					
Revenue growth	-	48.0%	67.2%	24.7%	25.6%
Gross Profit growth	-	37.2%	67.3%	24.4%	25.5%
Net Profit growth	-	80.4%	35.7%	30.9%	26.4%
Profitability Ratios					
Gross Margin	92.3%	85.5%	85.6%	85.4%	85.3%
Net Profit Margin	25.8%	31.5%	25.5%	26.8%	27.0%
Key Ratios					
Return on Assets	16.3%	11.8%	8.1%	7.8%	8.6%
Return on Equity	29.1%	16.1%	11.7%	12.9%	14.3%
Effective Tax Rate	19.0%	10.5%	16.0%	14.0%	14.0%
Liability ratio	59.1%	15.0%	38.7%	40.0%	40.0%
Income Statement(RMB: mn)					
Revenue	1,131	1,673	2,797	3,488	4,381
- Cost of Goods Sold	87	242	402	509	644
Gross Income	1,043	1,431	2,395	2,979	3,737
- Selling, General & Admin Exp	700	978	1,424	1,981	2,480
Operating Income	357	491	1,093	1,122	1,415
- Interest Expense	29	27	148	160	180
- Net Non-Operating Losses (Income)	-32	-147	72	-140	-150
Pretax Income	360	588	850	1,087	1,375
- Income Tax Expense	68	62	136	152	192
Income Before XO Items	292	526	714	935	1,182
Net Profit	292	526	714	935	1,182

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 27 Mar 2017)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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